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# Soft Second Loan Program

## *Fact Sheet*

The Soft Second Loan Program is a joint initiative between the public and private sectors to increase homeownership opportunities for low- and moderate-income first-time homebuyers. The program increases the purchasing power of income-eligible households by combining a conventional first mortgage with a publicly subsidized second mortgage.

After a 3% down payment, a standard 30-year fixed rate mortgage covers up to 77% of the purchase price of a home with a publicly subsidized second mortgage covering the remaining 20%. This "Soft Second" mortgage would be fully amortizing with interest only payments for the first 10 years, during which time public money will help lower a household's monthly housing cost depending on their income.

### How it works

Many first-time homebuyers have difficulty qualifying for a mortgage large enough to purchase a market-rate home. The Soft Second Loan Program breaks a total mortgage amount in two smaller mortgages. Participating private lenders qualify borrowers based on the monthly payments on the first mortgage and a reduced share of the monthly interest on the second mortgage. Public funds cover the remaining portion of the monthly interest on the second mortgage.

The first mortgage is limited to no more than 77% of the value of the property, allowing the borrower to avoid the additional expense of private mortgage insurance. Further more, the borrower is only required to provide a 3% down payment, of which only 1.5% needs to be their money (a minimum of \$1,500). The borrower makes reduced, interest-only payments on the second mortgage for 10 years.

For the first 5 years, public funds may cover up to 75% of the monthly payments on the second mortgage. Over the next five years, the amount of subsidy gradually decreases until it is fully phased out by year 10. By year 11, the homeowner will be paying the full principal payments on the second mortgage.

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Buyers are expected to pay no less than 28% and no more than 33% of their income for housing. The second mortgage is limited to the greater of either 20% of the purchase price or \$20,000.

Buyers who sell homes within five years of purchasing with the Soft Second Loan must repay the full public subsidy used up until that point. Buyers selling after five years are required to repay the lesser of either the subsidy used, or 20% of the net appreciation gained at the time of sale.

### Who is eligible

Buyers: The Program is limited to first-time homebuyers with a current total household income at or below 80% of the median income and up to 100% in some communities. Maximum purchase price limits for condominiums, single-family homes and multi-family homes vary depending on recent data from each community.

Program administrators: Municipalities showing either a proven track record in the SSLP or ones demonstrating a partnership with lending institutions.

### Application process

Buyers: Prospective buyers should contact either the local program representative for the community in which they wish to purchase a home or the Massachusetts Housing Partnership fund at 617-338-7868/ [www.mhpfund.net/homeownership](http://www.mhpfund.net/homeownership).

Program administrators: DHCD will issue Notice of Funding Availability to chief elected officials throughout the state. Interested communities can respond to the notice with a letter of interest describing the following:

- Local lenders willing to participate in the program
- Local resources committed to the program
- Program description prepared to notify local residents
- General readiness to implement the program

### For more information

Please call the Division of Housing Development at (617) 727-7824.